

**VARIETY CHILD LEARNING CENTER**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**JUNE 30, 2016 AND 2015**

# **VARIETY CHILD LEARNING CENTER**

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## **Independent Auditor's Report**

**Board of Trustees  
Variety Child Learning Center**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Variety Child Learning Center, which comprise the balance sheet as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Variety Child Learning Center as of June 30, 2016 and 2015, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Loeb & Troper LLP*

November 29, 2016

## VARIETY CHILD LEARNING CENTER

## BALANCE SHEET

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,213,518	\$ 1,126,812
Investments (Note 2)	1,392,024	1,515,704
Tuition receivable - net (Note 2)	2,396,431	1,935,881
Governmental and other grant receivables	204,559	237,796
Contributions receivable - current	90,815	13,147
Prepaid expenses	28,136	14,849
Fixed assets - net (Note 3)	3,456,291	3,563,377
Deferred financing costs	33,168	37,407
Swap receivable (Note 9)		6,605
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 8,814,942</u>	<u>\$ 8,451,578</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses (Note 10)	\$ 655,977	\$ 230,300
Accrued retirement benefits (Note 4)	436,272	442,832
Line of credit (Note 5)	690,000	
Swap payable (Note 9)	73,045	
Mortgage payable (Note 6)	1,490,600	1,560,200
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>3,345,894</u>	<u>2,233,332</u>
Net assets (Exhibit B)		
Unrestricted	5,233,076	6,097,737
Temporarily restricted (Note 7)	235,972	120,509
	<u>                    </u>	<u>                    </u>
Total net assets	<u>5,469,048</u>	<u>6,218,246</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u>\$ 8,814,942</u>	<u>\$ 8,451,578</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

VARIETY CHILD LEARNING CENTER  
STATEMENT OF ACTIVITIES  
YEARS ENDED JUNE 30, 2016 AND 2015

EXHIBIT B

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support						
Student tuition and fees						
Preschool	\$ 10,798,382			\$ 9,099,346		
School age	2,172,706			1,847,509		
Itinerant services	734,032			717,051		
Early intervention	1,668,293			1,503,778		
Related services	210,185			243,148		
Evaluations	121,476			114,658		
Other fees	\$ 468,290		\$ 468,290	\$ 307,141		\$ 307,141
Grant income		\$ 570,578	\$ 570,578		\$ 837,233	\$ 837,233
Contributions and other support	277,658	165,423	443,081	442,957	51,633	494,590
United Way contributions	14,055		14,055	14,385		14,385
Special event revenue	305,602			181,478		
Less direct costs of special events	(73,637)			(70,033)		
Net revenue from special events	211,736	20,229	231,965	91,612	19,833	111,445
Interest and dividends	15,657		15,657	16,153		16,153
Net assets released from restriction (Note 7)	640,767	(640,767)		998,570	(998,570)	
Total revenues and other support	<u>17,333,237</u>	<u>115,463</u>	<u>17,448,700</u>	<u>15,396,308</u>	<u>(89,871)</u>	<u>15,306,437</u>
Expenses (Exhibit C)						
Program services						
Education programs	15,511,389		15,511,389	13,403,718		13,403,718
Other programs	737,028		737,028	845,354		845,354
Total program services	<u>16,248,417</u>		<u>16,248,417</u>	<u>14,249,072</u>		<u>14,249,072</u>
Supporting services						
Management and general	1,668,329		1,668,329	1,416,947		1,416,947
Fund raising	84,966		84,966	52,820		52,820
Total supporting services	<u>1,753,295</u>		<u>1,753,295</u>	<u>1,469,767</u>		<u>1,469,767</u>
Total expenses	<u>18,001,712</u>		<u>18,001,712</u>	<u>15,718,839</u>		<u>15,718,839</u>
Change in net assets before realized and unrealized gain (loss) on investments and loss on swap agreement	(668,475)	115,463	(553,012)	(322,531)	(89,871)	(412,402)
Realized and unrealized gain (loss) on investments	(116,536)		(116,536)	201,399		201,399
Loss on swap agreement (Note 9)	(79,650)		(79,650)	(24,149)		(24,149)
Change in net assets (Exhibit D)	(864,661)	115,463	(749,198)	(145,281)	(89,871)	(235,152)
Net assets - beginning of year	6,097,737	120,509	6,218,246	6,243,018	210,380	6,453,398
Net assets - end of year (Exhibit A)	<u>\$ 5,233,076</u>	<u>\$ 235,972</u>	<u>\$ 5,469,048</u>	<u>\$ 6,097,737</u>	<u>\$ 120,509</u>	<u>\$ 6,218,246</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

VARIETY CHILD LEARNING CENTER  
STATEMENT OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30, 2016 AND 2015

EXHIBIT C

	2016								2015
	Program Services			Supporting Services					
	Education Programs	Other Programs	Total	Management and General	Fund Raising	Direct Costs of Special Events	Total	Total	
Salaries	\$ 11,637,681	\$ 552,601	\$ 12,190,282	\$ 940,968	\$ 12,883		\$ 953,851	\$ 13,144,133	\$ 11,457,692
Payroll taxes and employee benefits	2,519,038	109,519	2,628,557	196,800	3,586		200,386	2,828,943	2,225,205
Total salaries and related expenses	14,156,719	662,120	14,818,839	1,137,768	16,469		1,154,237	15,973,076	13,682,897
Contracted services	150,202	4,044	154,246	73,771	29,377		103,148	257,394	231,037
Professional fees	4,950		4,950	60,836			60,836	65,786	60,183
Supplies and equipment	227,227	16,129	243,356	67,941	7,609		75,550	318,906	399,760
Utilities	140,889	7,027	147,916	7,987			7,987	155,903	187,084
Telephone	36,138	3,133	39,271	13,295			13,295	52,566	38,733
Insurance	88,979	1,773	90,752	17,573			17,573	108,325	103,741
Interest	62,698		62,698	36,099			36,099	98,797	82,692
Rent	127,494	22,506	150,000					150,000	100,000
Repairs and maintenance	131,592	3,505	135,097	11,425			11,425	146,522	153,897
Leased equipment and vehicles	49,165	1,717	50,882	1,983			1,983	52,865	41,805
Venue, catering and entertainment						\$ 73,637	73,637	73,637	70,033
Depreciation and amortization	252,731	2,460	255,191	179,129			179,129	434,320	470,732
Miscellaneous	82,605	12,614	95,219	60,522	31,511		92,033	187,252	166,278
Total expenses	15,511,389	737,028	16,248,417	1,668,329	84,966	73,637	1,826,932	18,075,349	15,788,872
Less direct costs of special events deducted directly on the statement of activities						(73,637)	(73,637)	(73,637)	(70,033)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 15,511,389	\$ 737,028	\$ 16,248,417	\$ 1,668,329	\$ 84,966	\$ -	\$ 1,753,295	\$ 18,001,712	\$ 15,718,839

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VARIETY CHILD LEARNING CENTER  
STATEMENT OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30, 2016 AND 2015

EXHIBIT C  
-2-

	2015							
	Program Services			Supporting Services				
	Education Programs	Other Programs	Total	Management and General	Fund Raising	Direct Costs of Special Events	Total	Total
Salaries	\$ 10,011,024	\$ 592,755	\$ 10,603,779	\$ 843,232	\$ 10,681		\$ 853,913	\$ 11,457,692
Payroll taxes and employee benefits	1,976,508	95,856	2,072,364	149,791	3,050		152,841	2,225,205
Total salaries and related expenses	11,987,532	688,611	12,676,143	993,023	13,731		1,006,754	13,682,897
Contracted services	125,510	9,596	135,106	67,295	28,636		95,931	231,037
Professional fees				60,183			60,183	60,183
Supplies and equipment	329,774	35,624	365,398	27,736	6,626		34,362	399,760
Utilities	143,186	35,811	178,997	8,087			8,087	187,084
Telephone	27,497	5,094	32,591	6,026	116		6,142	38,733
Insurance	94,084	2,114	96,198	7,543			7,543	103,741
Interest	63,246		63,246	19,446			19,446	82,692
Rent	56,835	43,165	100,000					100,000
Repairs and maintenance	132,694	10,110	142,804	11,093			11,093	153,897
Leased equipment and vehicles	38,616	1,106	39,722	2,083			2,083	41,805
Venue, catering and entertainment						\$ 70,033	70,033	70,033
Depreciation and amortization	300,918	3,583	304,501	166,231			166,231	470,732
Miscellaneous	103,826	10,540	114,366	48,201	3,711		51,912	166,278
Total expenses	13,403,718	845,354	14,249,072	1,416,947	52,820	70,033	1,539,800	15,788,872
Less direct costs of special events deducted directly on the statement of activities						(70,033)	(70,033)	(70,033)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 13,403,718	\$ 845,354	\$ 14,249,072	\$ 1,416,947	\$ 52,820	\$ -	\$ 1,469,767	\$ 15,718,839

See independent auditor's report.

The accompanying notes are an integral part of these statements.



**VARIETY CHILD LEARNING CENTER**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (749,198)	\$ (235,152)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Loss on swap agreement	79,650	24,149
Depreciation and amortization	434,320	470,732
Net realized and unrealized loss (gain) on investments	116,536	(201,399)
Decrease (increase) in assets		
Tuition receivable	(460,550)	19,673
Governmental and other grant receivables	33,237	189,388
Contributions receivable	(77,668)	(4,469)
Prepaid expenses	(13,287)	539
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	425,677	(32,829)
Accrued retirement benefits	(6,560)	138,827
Accrued health benefits		(17,350)
	<u>(217,843)</u>	<u>352,109</u>
Cash flows from investing activities		
Fixed asset acquisitions	(322,995)	(1,072,495)
Purchase of investments	(412,131)	(357,876)
Proceeds from sale of investments	419,275	568,025
	<u>(315,851)</u>	<u>(862,346)</u>
Cash flows from financing activities		
Proceeds from line of credit	5,975,000	2,100,000
Principal payments on line of credit	(5,285,000)	(2,100,000)
Principal payments on mortgage payable	(69,600)	(69,600)
	<u>620,400</u>	<u>(69,600)</u>
Net change in cash and cash equivalents	86,706	(579,837)
Cash and cash equivalents - beginning of year	<u>1,126,812</u>	<u>1,706,649</u>
Cash and cash equivalents - end of year	<u>\$ 1,213,518</u>	<u>\$ 1,126,812</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 98,797</u>	<u>\$ 82,692</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## VARIETY CHILD LEARNING CENTER

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

#### NOTE 1 - NATURE AND PURPOSE OF ORGANIZATION

Variety Child Learning Center (VCLC), located in Syosset, New York is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. VCLC serves primarily young children with learning, language and behavioral problems and autism, and their families. VCLC also provides training to early childhood professional personnel, and performs programmatic research.

VCLC operated the following programs during the year:

The Education programs provide special education and related services to children from birth to eight years of age, in addition to support services and parent education for their families. The primary support for these services is student tuition and fees.

The Other programs provide additional activities for the students in the areas of socialization, recreation, respite, and educational skills. Support for these programs is from user fees, contributions, and government grants and fees.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of accounting*** - The financial statements are prepared on the accrual basis of accounting.

***Use of estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and cash equivalents*** - Cash and cash equivalents include highly liquid investments with initial maturities, when acquired, of three months or less.

***Investments*** - Investments are recorded at fair value. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on market fluctuations, and that such changes could materially affect the amounts reported in the financial statements.

***Tuition receivable*** - VCLC records receivables based on established rates and units of service provided. VCLC has determined that an allowance for uncollectible accounts for certain receivables is necessary as of June 30, 2016 and 2015.

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**VARIETY CHILD LEARNING CENTER****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Governmental and other grant receivables*** - VCLC records grants receivable based on established contracts with the government and other agencies. Management has determined that an allowance for uncollectibles is not necessary.

***Contributions receivable*** - Unconditional promises to give that are expected to be collected within one year or future years are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

***Allowance for doubtful accounts*** - Factors used to determine whether an allowance should be recorded include the age of the receivable, review of payments subsequent to year end, as well as current economic conditions, historical information, and other factors. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Interest income is not accrued or recorded on receivables. As of June 30, 2016 and 2015, the allowance was \$20,000.

***Fixed assets*** - Fixed assets are stated at cost. Individual items with a cost in excess of \$1,000 and an estimated useful life greater than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

***Deferred financing costs*** - Deferred financing costs are stated at cost and amortized over the life of the mortgage.

***Unrestricted net assets*** - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

***Temporarily restricted net assets*** - Temporarily restricted net assets are those whose use by VCLC has been limited by donors to a specific time period or purpose.

***Revenues*** - Revenues for tuition-funded students are recognized on a per diem basis from the first day of a student's enrollment in VCLC. At the beginning of each school year, VCLC is granted a provisional rate for its funded students by The New York State Education Department (SED). This provisional rate is adjusted by SED based upon a final expenditure report submitted to them by VCLC subsequent to year end. It is VCLC's policy to reflect any increase or decrease in the tuition rate based upon this report in its current financial statements.

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**VARIETY CHILD LEARNING CENTER****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Contributions** - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Government grants** - Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, VCLC establishes advances from government funders.

**Functional allocation of expenses** - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Operating lease** - Operating lease payments are charged to rent expense. The lease is cancellable at June 30 of each fiscal year with six months' notice to the lessor. Accordingly, rent has been recorded based on the actual lease rather than on the straight-line basis.

**Uncertainty in income taxes** - VCLC has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2013 and subsequent remain subject to examination by applicable taxing authorities.

**Subsequent events** - Subsequent events have been evaluated through November 29, 2016, which is the date the financial statements were available to be issued.

**Reclassification** - In 2015, direct costs of special events expenses have been reclassified to venue, catering and entertainment to conform with the current year's presentation.

**Fair Value Measurements**

**Fair Value Measurements** establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that VCLC has the ability to access. Level 2 inputs to the valuation methodology include:

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**VARIETY CHILD LEARNING CENTER****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Fair Value Measurements (continued)*

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no change in the methodologies used at June 30, 2016 as compared to those used at June 30, 2015.

*Money market funds* - Valued at the net asset value ("NAV") of shares held at year end.

*Equity securities* - Valued at the closing price reported on the active market on which the individual securities are traded.

*Swap receivable* - Valued based on the present value of cash flows for future settlements using similar instruments with similar terms and credit rating.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while VCLC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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**VARIETY CHILD LEARNING CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Fair Value Measurements (continued)*

The following table sets forth by level and type, within the fair value hierarchy, the assets at fair value as of June 30, 2016 and 2015:

	2016			2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Money market funds		\$ 42,214	\$ 42,214		\$ 24,511	\$ 24,511
Equity securities						
Consumer goods	\$ 285,182		285,182	\$ 270,760		270,760
Financial	78,360		78,360	115,287		115,287
Health care	306,666		306,666	335,358		335,358
Industrials				146,401		146,401
Services	339,080		339,080	318,619		318,619
Technology	<u>340,522</u>		<u>340,522</u>	<u>304,768</u>		<u>304,768</u>
Total equity securities	<u>1,349,810</u>		<u>1,349,810</u>	<u>1,491,193</u>		<u>1,491,193</u>
Total investments	<u>\$1,349,810</u>	<u>\$ 42,214</u>	<u>\$1,392,024</u>	<u>\$1,491,193</u>	<u>\$ 24,511</u>	<u>\$1,515,704</u>
Swap (liability) receivable		<u>\$ (73,045)</u>	<u>\$ (73,045)</u>		<u>\$ 6,605</u>	<u>\$ 6,605</u>

**NOTE 3 - FIXED ASSETS**

	2016	2015	Estimated Useful Life
Land	\$ 43,300	\$ 43,300	
Building and improvements	7,754,081	7,590,996	5 - 40 years
Furniture and equipment	<u>2,170,527</u>	<u>2,010,617</u>	5 - 10 years
	9,967,908	9,644,913	
Accumulated depreciation	<u>(6,511,617)</u>	<u>(6,081,536)</u>	
	<u>\$ 3,456,291</u>	<u>\$ 3,563,377</u>	

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**VARIETY CHILD LEARNING CENTER****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****NOTE 4 - RETIREMENT PLAN**

VCLC has a noncontributory defined contribution retirement plan covering all eligible employees, as defined in the plan document. Contributions are determined at the discretion of the Board of Trustees. The retirement plan expense for the year ended June 30, 2016 and 2015 was \$436,272 and \$442,832, respectively. The retirement expense was allocated to employees' accounts in proportion to compensation. As of June 30, 2016 and 2015, the outstanding balance is \$436,272 and \$442,832, respectively.

**NOTE 5 - LINE OF CREDIT**

As of June 30, 2015, VCLC had an available line of credit with a financial institution in the amount of \$3,000,000. As of June 30, 2016 and 2015, the line of credit bears interest on the outstanding balance at the minimum interest rate permitted under the line of 3.5% for 2016 and 2015. Interest is charged at a rate equal to 2.25% in excess of LIBOR or the bank's prime rate of 3.5%, subject to the minimum rate described above. Drawdowns may be taken under either index. The line of credit agreement is collateralized by the assets of VCLC. The line of credit matures on February 1, 2017. As of June 30, 2016 the balance is \$690,000. As of June 30, 2015, there was no outstanding balance. Interest expense was \$32,836 in 2016 and \$13,914 in 2015.

**NOTE 6 - MORTGAGE PAYABLE**

The mortgage held by a financial institution matures November 1, 2022. The agreement includes principal payments of \$5,800 per month for 119 months. The final payment will include any unpaid principal and interest at that time. Interest will be charged at a variable rate equal to the 1-month LIBOR plus 240 basis points. As of June 30, 2016 and 2015, the variable interest rate was 2.85% and 2.58%, respectively. VCLC also entered into a swap agreement fixing the rate at 4.245%. The mortgage is secured by real property and improvements at 47 Humphrey Drive, Syosset, NY; assignment of rents, leases and profits with respect to the premises; and all furniture and equipment located at premises. As of June 30, 2016 and 2015, \$1,490,600 and \$1,560,200 was outstanding, respectively. Interest expense was \$65,961 and \$68,778 in 2016 and 2015, respectively.

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**VARIETY CHILD LEARNING CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**NOTE 6 - MORTGAGE PAYABLE (continued)**

Required principal payments based on the refinanced loan are as follows:

2017	\$ 69,600
2018	69,600
2019	69,600
2020	69,600
2021	69,600
Thereafter	<u>1,142,600</u>
	<u>\$ 1,490,600</u>

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Building, furniture and equipment	\$ 163,390	\$ 62,446
Education, research projects, and training	55,770	44,938
Needy family support	5,868	5,142
Parent events	<u>10,944</u>	<u>7,983</u>
	<u>\$ 235,972</u>	<u>\$ 120,509</u>

Net assets were released from donor restrictions by incurring expenses satisfying the following temporarily restricted purposes:

	<u>2016</u>	<u>2015</u>
Building, furniture and equipment	\$ 26,367	\$ 88,672
Early Childhood Direction Center		233,340
Education, research projects, and training	26,548	63,935
Family respite	121,380	121,998
Needy family support	17,274	23,206
Title I programs	<u>449,198</u>	<u>467,419</u>
	<u>\$ 640,767</u>	<u>\$ 998,570</u>

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**VARIETY CHILD LEARNING CENTER****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****NOTE 8 - CONCENTRATIONS**

Financial instruments which potentially subject VCLC to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

For the years ended June 30, 2016 and 2015, VCLC received approximately 73% and 72%, respectively, of its operating revenue from Nassau County. As of June 30, 2016 and 2015, VCLC has a receivable of approximately 73% in 2016 and 64% in 2015 due from Nassau County.

**NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS**

In October 2013, VCLC entered into an interest rate swap agreement with a financial institution in order to convert the interest rate on its mortgage to a fixed rate of 4.245%. The swap agreement resulted in a mark-to-market unrestricted loss of \$79,650 in 2016 and an unrestricted loss of \$24,149 in 2015. At June 30, 2016, the fair value of the swap agreement was a liability of \$73,045 and a receivable \$6,605 at June 30, 2015.

The swap is designated to hedge the risk of changes in interest payments on the note caused by changes in LIBOR. The notional amounts do not represent actual amounts exchanged by the parties, but instead represent the amounts on which the contracts are based.

The swap was issued at market terms so that it had no fair value or carrying value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year which, because of changes in forecasted levels of LIBOR, resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The swap contract permits settlement prior to maturity only through termination by VCLC. The settlement amount is determined based on forecasted changes in interest rates required under fixed and variable legs of the swap. VCLC believes the settlement amount is the best representation of the fair value of the swap and has adjusted its carrying amount to the settlement amount at the end of the year.

Since the critical terms of the swap and the mortgage are approximately the same, the swap is assumed to be effective as a hedge, and the changes in fair values are included as an "other change in net assets." If the swap is terminated early, the corresponding carrying amount would be reclassified into revenues and gains or expenses before other changes.

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**VARIETY CHILD LEARNING CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**NOTE 10 - WORKERS' COMPENSATION INSURANCE**

VCLC was a member of Community Residences Insurance Saving Self-Insurance Trust (the Trust) from 2001 through August 2010 for workers' compensation coverage. A liability has been recorded as part of accounts payable and accrued expenses for VCLC's share of claims outstanding from the time VCLC participated in the group. A final settlement in the amount of \$293,591 for outstanding claims has been recorded as per the agreement with NYS Workers Compensation Board.

**NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts of financial instruments in the financial statements approximate fair value.

**NOTE 12 - OPERATING LEASE**

On July 1, 2014, VCLC entered into an agreement to lease instructional and related services space in connection with the conduct of VCLC's educational, social and family support programs. The lease expires on June 30, 2018. The lease can be terminated with at least six (6) months' notice by either party. Future minimum lease payments are as follows:

2017	\$ 200,000
2018	<u>250,000</u>
	<u>\$ 450,000</u>

**NOTE 13 - COMMITMENT**

VCLC's Chief Executive Officer and Chief Financial Officer have entered into three-year contracts with an expiration date of June 30, 2017. The agreements provide for severance payments equal to 12 months' compensation in the event of termination in certain circumstances, as defined in the agreements.

**NOTE 14 - RELATED-PARTY TRANSACTIONS**

A member of the Board of Trustees is employed by the legal firm that VCLC used and incurred legal cost of \$4,950 in 2016. The board member did not receive any direct compensation during 2016 in connection with this transaction.